

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Newaygo County
Mental Health Board**

Financial Statements
September 30, 2007



Newaygo County Mental Health Board
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September 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo County Mental Health Board as of and for the year ended September 30, 2007, which collectively comprise Newaygo County Mental Health Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Newaygo County Mental Health Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo County Mental Health Board as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2008 on our consideration of Newaygo County Mental Health Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Newaygo County Mental Health Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

The management of Newaygo County Mental Health (NCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2006/2007. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. NCMH, which was created as a Mental Health Authority on January 1, 1999 by action of the Newaygo County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Ionia County Community Mental Health. This affiliation is informally called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with NCMH to provide Medicaid covered services for the County of Newaygo for the current fiscal year. At this time, NCMH has approximately 8,500 total Medicaid covered lives. This number has been stable over the last 12 months from 8,600 covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Newaygo County Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For NCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2007 and 2006.

Summary of Net Assets		
As of September 30, 2007 and 2006		
(In dollars)		
	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	2,689,131	2,162,771
Restricted Assets	529,691	1,302,382
Capital Assets	<u>284,090</u>	<u>99,673</u>
Total Assets	3,502,912	3,564,826
Liabilities		
Current Liabilities	1,446,074	965,076
Long term liabilities	25,954	0
Noncurrent Liabilities – Comp. Absences	<u>156,966</u>	<u>166,197</u>
Total Liabilities	857,395	1,131,273
Net Assets		
Investment in capital assets	246,076	99,673
Reserved for Michigan Families	372,725	432,233
Restricted for risk management	0	78,208
Unrestricted	1,255,117	1,823,439
Total Net Assets	\$ 1,873,918	\$ 2,433,533

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$ 1,243,057 an increase of \$ 45,362 compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$618,801 have increased by \$86,895.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2007, capital assets having an original book value of \$508,523 were recorded, net of restated accumulated depreciation of \$408,850, for a beginning net book value of \$99,673.00.

As of year-end, the net book value of capital assets was 39% of the original book value compared to 20% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of the liability for compensated absences that includes vested annual leave obligations.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$ 1,255,117, a decrease of \$ 568,322.

Unrestricted net assets were 36% of total assets, down from 52% from the prior year.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2007 and 2006.

Summary of Activities		
As of September 30, 2007 and 2006		
	<u>2007</u>	<u>2006</u>
Revenue		
Medicaid specialty supports and services	6,432,842	5,764,084
State general fund priority populations	1,335,508	1,431,521
Grants and earned contracts	479,976	492,731
County appropriation	220,000	220,000
Interest income	105,290	109,574
Other local income	<u>75,839</u>	<u>59,246</u>
Total Revenue	8,649,455	8,077,156
Expense		
Personnel expense	4,285,554	4,256,780
Operating expense	4,206,088	3,747,380
Capital outlay	230,764	
Debt payments – Principal	11,462	
Debt payments – Interest	<u>2,258</u>	
	8,736,126	8,004,160
Other financing sources (uses)		
Proceeds from loans	49,476	
Transfer in – Internal Service Fund	82,570	
Transfer – Post employment benefits to MERS	(622,930)	
Excess of Revenue over Expense	(579,555)	75,812

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

Excess of revenue over expenses from activities for the current year was (577,555). This is an increase of \$653,367 from the prior year surplus of \$75,812. This is primarily due to the transfer of the post-employment benefits to third party administrators.

Revenue for the year was \$8,649,455 in total, an increase of \$572,299 or 7% from the prior year.

Medicaid specialty supports and services revenue of \$6,432,842 represents 74% of total revenue and increased \$668,758 or 11.6% compared to the prior year. Unspent Medicaid subcontract funds of \$771,599 are not revenue and are shown as amounts due to the PIHP.

State general fund priority population revenue (formula funding) of \$1,158,804 represents 13.4% of total revenue and decreased \$102,041, or 8.1% compared to the prior year. Funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. The county appropriation was unchanged.

Total expense of \$ 8,736,126 has increased \$ 731,966 or 9.2% compared to the prior year. Personnel expense is 49.1% of total expense and has increased \$ 28,774 or less than 1%. Operating expense is 48.2% of total expense and has increased \$ 458,708 or 12.3%.

Other significant events: During FY07, the County of Newaygo built a 12,800 square foot addition to the existing Mental Health center. The new space was occupied in July, 2007. Newaygo County Mental Health subsequently entered into a lease agreement with the County of Newaygo for the existing building, as well as the additional space.

Newaygo County Mental Health

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2007

ACTUAL TO BUDGET COMPARISON

The fiscal year 2006/2007 budget adopted by the governing board was \$9,298,231 of revenues and \$9,146,033 of expenses. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenue	\$8,683,163	\$9,298,231	\$615,068
Expenses	\$8,829,342	\$9,146,033	\$316,691

There are several reasons that account for this variance. NCMH is no longer able to retain up to 5% of its unused Medicaid funds, as the Medicaid contract is now held by CEI (the PIHP). Budgeted Medicaid revenues and expenditures reflect actual Medicaid paid to NCMH and expenditures incurred by NCMH. These amounts do not include potential excess Medicaid funds that were returned to the PIHP.

FUTURE OUTLOOK

The State of Michigan continues to struggle with balancing huge budget deficits. Federal deficits continue to place additional pressures on Medicaid Funding. State general funds are also at risk for funding cuts. The effect of these difficulties on future funding for Newaygo County Mental Health and specialty support and services is unknown. Newaygo County Mental Health is committed to containing costs and efficiency gains in all areas of our operations.

While the financial position of the Authority is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents. Management will continue to explore alternative funding sources where appropriate, analyze expenses, and implement cost efficiencies where possible. Newaygo County Mental Health will continue to provide to our customers the best programs and service array for the best value.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
Assets		
Current assets		
Cash and cash equivalents - unrestricted	\$2,414,374	\$1,980,366
Accounts receivable, net	158,309	72,606
Due from other governmental units	77,972	62,257
Prepaid expenses	38,476	47,542
Total current assets	2,689,131	2,162,771
Noncurrent assets		
Cash and cash equivalents - restricted	529,691	1,302,382
Capital assets - depreciable, net	284,090	99,673
Total noncurrent assets	813,781	1,402,055
Total assets	3,502,912	3,564,826
Liabilities		
Current liabilities		
Accounts payable	405,537	322,396
Deferred revenue	8,212	20
Accrued wages and other payroll liabilities	146,014	148,828
Due to other governmental units	874,251	493,832
Current portion of long-term liabilities	12,060	-
Total current liabilities	1,446,074	965,076
Noncurrent liabilities		
Long-term liabilities	25,954	-
Compensated absences	156,966	166,197
Total noncurrent liabilities	182,920	166,197
Total liabilities	1,628,994	1,131,273
Net assets		
Invested in capital assets, net of related debt	246,076	99,673
Restricted for:		
Michigan families program	372,725	432,233
Risk management	-	78,208
Unrestricted	1,255,117	1,823,439
Total net assets	\$1,873,918	\$2,433,553

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	Program Revenues			Net (Expense) Revenue And Changes In Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	2007	2006
Functions					
Governmental activities					
Health & welfare - mental health	<u>\$8,621,416</u>	<u>\$6,658,915</u>	<u>\$1,891,434</u>	(\$71,067)	(\$85,271)
General revenues					
Unrestricted investment earnings				105,290	85,122
Restricted investment earnings				<u>29,072</u>	<u>27,960</u>
Total general revenues and contributions				<u>134,362</u>	<u>113,082</u>
Transfer of post employment benefits to third party administrators				(622,930)	-
Change in net assets				(559,635)	27,811
Net assets - beginning of year				2,433,553	2,433,553
Prior period adjustment				<u>-</u>	<u>4,465</u>
Net assets - end of year				<u>\$1,873,918</u>	<u>\$2,433,553</u>

FUND FINANCIAL STATEMENTS



NEWAYGO COUNTY MENTAL HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	MAJOR FUNDS		Total Governmental Funds	
	General	Michigan	2007	2006
	Fund	Families		
Assets				
Cash and cash equivalents - unrestricted	\$2,414,374	-	\$2,414,374	\$1,980,366
Due from other funds	-	-	-	2,816
Accounts receivable, net	158,309	-	158,309	72,606
Due from other governmental units	77,972	-	77,972	62,257
Prepaid expenses	38,476	-	38,476	47,542
Cash and cash equivalents - restricted	156,966	\$372,725	529,691	1,221,360
Total Assets	<u>\$2,846,097</u>	<u>\$372,725</u>	<u>\$3,218,822</u>	<u>\$3,386,947</u>
Liabilities				
Accounts payable	\$405,537	-	\$405,537	\$322,396
Deferred revenue	8,212	-	8,212	20
Accrued wages and other payroll liabilities	146,014	-	146,014	148,828
Due to other governmental units	874,251	-	874,251	493,832
Total liabilities	<u>1,434,014</u>	<u>-</u>	<u>1,434,014</u>	<u>965,076</u>
Fund balances				
Reserved for:				
Michigan families program	-	\$372,725	372,725	432,233
Prepaid expenses	22,064	-	22,064	47,542
Unreserved	1,390,019	-	1,390,019	1,942,096
Total fund balances	<u>1,412,083</u>	<u>372,725</u>	<u>1,784,808</u>	<u>2,421,871</u>
Total liabilities and fund balances	<u>\$2,846,097</u>	<u>\$372,725</u>	<u>\$3,218,822</u>	<u>\$3,386,947</u>

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Total fund balance - governmental funds	\$1,784,808
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	740,233
Deduct: Accumulated depreciation	(456,143)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Loans payable	(38,014)
Deduct: Compensated absences	<u>(156,966)</u>

Net assets of governmental activities	<u><u>\$1,873,918</u></u>
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NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	General Fund	Michigan Families	Total Governmental Funds	
			2007	2006
Revenues				
State grants				
Department of community health contract	\$1,158,804	-	\$1,158,804	\$1,260,845
Adult benefit waiver	165,665	-	165,665	159,321
MI Child	8,460	-	8,460	8,776
Title XX	2,579	-	2,579	2,579
Total state grants	1,335,508	-	1,335,508	1,431,521
Federal grants				
Mental health block grants	-	-	-	12,296
Alzheimer's grant	62,402	-	62,402	60,450
PAS / ARR grant	21,662	-	21,662	40,512
Total federal grants	84,064	-	84,064	113,258
Contributions - local units				
County appropriations	220,000	-	220,000	220,000
Charges for services				
Medicaid - DCH contract	6,432,842	-	6,432,842	5,764,084
Medicaid - other	150,234	-	150,234	121,052
Client and third party pay	75,839	-	75,839	59,246
Total charges for services	6,658,915	-	6,658,915	5,944,382
Interest and rents	105,290	\$24,708	129,998	109,574
Other revenue	245,678	9,000	254,678	258,421
Total revenues	8,649,455	33,708	8,683,163	8,077,156

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	General Fund	Michigan Families	Total Governmental Funds	
			2007	2006
Expenditures				
Health & welfare - mental health				
Personnel expenditures	\$4,285,554	\$65,400	\$4,350,954	\$4,256,780
Operating expenditures	4,206,088	26,870	4,232,958	3,747,380
Capital outlay	230,764	946	231,710	-
Debt payments - principal	11,462	-	11,462	-
Debt payments - interest	2,258	-	2,258	-
Total expenditures	<u>8,736,126</u>	<u>93,216</u>	<u>8,829,342</u>	<u>8,004,160</u>
Revenues over (under) expenditures	(86,671)	(59,508)	(146,179)	72,996
Other financing sources (uses)				
Proceeds from loans	49,476	-	49,476	-
Transfer in from internal service fund	82,570	-	82,570	2,816
Transfer of post employment benefits to third party administrators	<u>(622,930)</u>	<u>-</u>	<u>(622,930)</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	(577,555)	(59,508)	(637,063)	75,812
Fund balance, beginning of year	1,989,638	432,233	2,421,871	2,341,594
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,465</u>
Fund balance, end of year	<u><u>\$1,412,083</u></u>	<u><u>\$372,725</u></u>	<u><u>\$1,784,808</u></u>	<u><u>\$2,421,871</u></u>

The notes to the financial statements are an integral part of this statement.

NEWAYGO COUNTY MENTAL HEALTH BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds (\$637,063)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and loan proceeds are recorded as a liability.

Deduct: Depreciation expense	(47,293)
Add: Capital outlay	231,710
Deduct: Loan proceeds	(49,476)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: Interest income from governmental internal service fund	4,364
Deduct: Transfer in from internal service fund	(82,570)

Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduced long-term liabilities in the statement of net assets and does not effect the statement of activities.

Add: Principal paid on long-term debt	11,462
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: Decrease in accrual for compensated absences	<u>9,231</u>
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Change in net assets of governmental activities	<u><u>(\$559,635)</u></u>
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NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007 AND 2006

	Internal Service Funds	
	2007	2006
Assets		
Cash and cash equivalents	-	\$81,022
Liabilities and net assets		
Liabilities		
Due to other funds	-	\$2,816
Net assets		
Restricted	-	78,206
Total liabilities and net assets	-	\$81,022

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Funds	
	2007	2006
Non-operating revenues (expense)		
Interest income	\$4,364	\$3,508
Operating transfers		
Operating transfers out - abatement, general fund	(82,570)	(2,816)
Change in net assets	(78,206)	692
Net assets, beginning of year	78,206	77,514
Net assets, end of year	-	\$78,206

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from capital and related financing activities		
Operating transfers out - abatement, general fund	(\$85,386)	-
Cash flows from investing activities		
Interest income	<u>4,364</u>	<u>\$3,508</u>
Net change in cash and cash equivalents	(81,022)	3,508
Cash and cash equivalents, beginning of year	<u>81,022</u>	<u>77,514</u>
Cash and cash equivalents, end of year	<u><u>-</u></u>	<u><u>\$81,022</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)		
	NA	NA

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Newaygo County Mental Health Board (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates under the provisions of Act 258 Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Board arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Newaygo who meet eligibility and other criteria.

As the community mental health services provider for Newaygo County, the Board also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Newaygo County Mental Health Board
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Newaygo County Mental Health Board
Notes to Financial Statements

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Michigan Families Fund – This fund accounts for the activities of the Michigan Families program.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due from / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Newaygo County Mental Health Board
Notes to Financial Statements

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include equipment, software and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Software	3
Vehicles	4
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of compensated absences, retirees' health insurance, Michigan Families program, and for the risk reserve liability. These restricted assets are held in separate cash accounts with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Board.

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Newaygo County Mental Health Board
Notes to Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Newaygo County.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan (CMHAMM) for Medicaid-qualified services rendered to residents of Newaygo County. CMHAMM serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Newaygo County and they contract with the MDCH to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Board incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Newaygo County Mental Health Board
Notes to Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

Cash and Cash Equivalents	2007	2006
Petty Cash	\$200	\$200
Checking, Savings, and Money Market Accounts	844,663	448,309
Certificates of Deposit	1,569,511	1,531,857
Certificates of Deposit - Restricted	529,691	1,302,382
Totals	\$2,944,065	\$3,282,748

Restricted Cash and Cash Equivalents

The Board has charged to the Department of Community Health the vested portion of compensated absences and future expected cost of employees' health insurance as of September 30th. The Board holds, in a separate bank account, funds equal to or greater than these estimated liabilities. The use of these funds is restricted to payment of compensated absences and retirees' health insurance premiums as they come due. During the current year the funds held for the payment of retirees' health insurance premiums was transferred to a third party administrator.

Cash and investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract. During the current year these funds were completely abated.

The restricted cash shown above represents cash and cash equivalents restricted for the following:

Restricted For:	2007	2006
Compensated Absences	\$156,966	\$166,197
Michigan Families Program	372,725	432,233
Risk Reserve – Internal Service Fund	-	81,022
Retirees' Health Insurance	-	622,930
Totals	\$529,691	\$1,302,382

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. The Board does not have a policy for custodial risk over deposits.

Newaygo County Mental Health Board
Notes to Financial Statements

As of the end of the current fiscal year, \$2,895,630 of the Board's \$3,095,630 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Board to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Board had no such investments.

The Board's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Board does not have any additional policies for custodial credit risk over investments.

Newaygo County Mental Health Board
Notes to Financial Statements

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2007	2006
State of Michigan – OBRA	\$2,093	\$22,111
State of Michigan – Alzheimer's Program	19,127	346
State of Michigan – DCH, Children's Model Waiver	43,697	14,181
State of Michigan – DCH, Cost Settlement	-	7,112
Newaygo County - Forensics	13,055	18,507
Totals	\$77,972	\$62,257

Newaygo County Mental Health Board
Notes to Financial Statements

Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expense	2007	2006
Insurance	\$13,843	\$14,648
Other	3,150	3,548
Maintenance Agreements	11,483	21,346
Flex Plan Set Up	10,000	8,000
Totals	\$38,476	\$47,542

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<i>Fixed Assets</i>				
Land	\$50,000	-	-	\$50,000
Buildings & Improvements	-	\$126,405	-	126,405
Vehicles	321,133	49,475	-	370,608
Furniture, Fixtures & Equip.	128,190	55,830	-	184,020
Computers and Software	9,200	-	-	9,200
Sub-total	508,523	231,710	-	740,233
<i>Accumulated Depreciation</i>				
Land	-	-	-	-
Buildings & Improvements	-	(6,320)	-	(6,320)
Vehicles	(313,158)	(20,344)		(333,502)
Furniture, Fixtures & Equip.	(86,492)	(20,629)	-	(107,121)
Computers and Software	(9,200)	-	-	(9,200)
Sub-total	(408,850)	(47,293)	-	(456,143)
Totals	\$99,673	\$184,417	-	\$284,090

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Newaygo County Mental Health Board
Notes to Financial Statements

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2007	2006
NC3 RESA Grant	\$8,212	-
Other	-	\$20
Totals	\$8,212	\$20

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2007	2006
State Of Michigan – Inpatient/Residential	\$11,382	\$6,576
Clinton-Eaton-Ingham – Medicaid	771,599	457,172
State of Michigan – DCH, Forensic Center	-	14,277
Other	91,270	15,807
Totals	\$874,251	\$493,832

Operating Leases

Newaygo County Mental Health Board has entered into an operating lease for the use of real property with the County of Newaygo. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the liabilities.

- The Board entered into a lease agreement with the County of Newaygo on September 13, 2006 for the use of existing office space and parking lots. The term of the lease is one year commencing on October 1, 2006. The lease payments shall be paid quarterly and are limited to the County's lease-related operating expenses for the leased property.

Newaygo County Mental Health Board
Notes to Financial Statements

- The Board entered into a lease agreement with the County of Newaygo on November 13, 2007 for the use of newly constructed office space. The term of the lease is twenty five (25) years commencing on June 1, 2007 and terminating on May 31, 2032. The lease payments shall be paid quarterly and are equal to \$18,000 plus interest on the underlying debt.

At September 30, the Board was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2008	\$133,612
2009	132,500
2010	131,388
2011	130,276
2012	129,164
Thereafter	\$2,069,216

Long-Term Debt

Compensated Absences

Board policy allows employees to accumulate up to 208 hours of leave time, which is less than or equal to one year of benefits, and to carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2007 and 2006 this liability was \$156,966 and \$166,197, respectively.

Notes Payable

- The Board entered into a promissory note in the amount of \$34,560 to finance the purchase of a van.
- The Board entered into at promissory note in the amount of \$14,916 to finance the purchase of a car.

Newaygo County Mental Health Board
Notes to Financial Statements

The terms of the promissory notes are detailed in the following chart.

Description	Date of Loan	Length of Loan	Original Balance	Monthly Payment	Interest Rate
Van, (Chevy Uplander)	09/22/07	48 mo.	\$34,560	\$799	5.10%
Car, (Ford Fusion)	09/22/07	48 mo.	14,916	345	5.10%

The changes in the long-term liabilities are as follows:

Description of Liability	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Van, (Chevy Uplander)	-	\$34,560	\$8,006	\$26,554	\$8,424
Car, (Ford Fusion)	-	14,916	3,456	11,460	3,636
Totals	-	\$49,476	\$11,462	\$38,014	\$12,060

The annual payments for the next five years (including interest of \$2,255) are as follows:

Year Ended September 30th,	Principle and Interest Due
2008	\$13,719
2009	13,719
2010	12,831
2011	-
2012	-

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues. Also, a portion of the net assets has been restricted for the Michigan Families Program.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

Transfers Between Funds

The Board transferred \$82,570 from the Internal Service Fund to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Compliance Audits

The Board participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Post-Employment Benefits Payable

Full-Time Employees Hired Prior to October 1, 2005

It is the policy of the Board to provide a continuation of health insurance coverage as a fringe benefit for retired employees of the Board (with the exception of the contract agents and part-time employees) who retire from active service in accordance with provisions of the policy. The following are the major provisions of the policy:

- Family continuation riders will not be included. Employees may purchase this coverage at their own expense.
- Full time employees may elect to enroll in employer-provided retiree health coverage provided they meet at least one of the following criteria:
 - Those who retire after attaining age 55 with at least 15 years of full-time service immediately before they retire;
 - Those who retire after attaining age 60 with at least 10 years of full-time service immediately before they retire; and
 - Those who terminate employment with the Agency before attaining age 55 but after completing at least 25 years of full-time service with the Agency. This group can enroll after attaining age 55.
 - Those who terminate employment because of a medical disability before attaining age 55 but after completing at least 15 years of full-time service with the Agency.

Newaygo County Mental Health Board
Notes to Financial Statements

Employees may be required to pay a portion of the cost of coverage. The applicable cost is determined as follows:

- If you retire after attaining age 55 with at least 15 years of full-time employment immediately before your retirement, you are required to pay 25% of the cost of the coverage for yourself and spouse until you become eligible for Medicare (Part A or B).
- If you retire after attaining age 60 with at least 10 years of full-time employment immediately before your retirement, you will be required to pay 25% of the cost of the coverage for yourself and your spouse.
- If you leave employment before attaining age 55 but after completing at least 25 years of full-time employment with Employer, you will be required to pay 50% of the cost of coverage for yourself and your spouse. If you elect coverage for any dependent children, you will be required to pay 100% of the cost of their coverage.
- If you leave employment due to a medical disability before attaining age 55 but after completing at least 15 years of full-time employment immediately before you leave employment due to the medical disability, you will be required to pay 25% of the cost of the coverage for yourself, subject to the termination provisions in Section 5 of this policy.

An actuarial basis is used to determine the amount of the expenditure and to fund the plan.

Employees Hired After October 1, 2005

Employees hired after October 1, 2005 are enrolled in a Post-Employment Health Care plan with MERS. Under this plan, the employees contribute 1% of their income on a pre-tax basis to PEHC, and the agency matches 2% to this contribution. The funds are managed and invested by MERS for the benefit of the employee. There is a 15 year vesting schedule for the agency contributions to this plan. The employee contributions are immediately 100% vested. The funds are available to the employee six months after separation from employment, and can be used for allowable medical expenses without tax consequences.

During the current year amounts held by the Board for the payment of these benefits was transferred to MERS.

MERS – Defined Benefit Plan

Plan Description

The Board participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2006. The Board's payroll for the employees covered by the system for the year ended December 31, 2006 was \$213,703.

The plan provides for normal retirement at age 60 with ten years of service credit. Early retirement is available with a minimum age of 55 with 15 years of service credit reduced by $\frac{1}{2}$ of 1% for each month under age 60 unless "waiver of section 47f" is adopted by the municipality, in which case no reduction would be made. The municipality may limit the waiver to members with 25 or more years of service.

The normal retirement benefit is a monthly pension payable in an amount equal to 2.5% of average final compensation times the years and months of service credit, not to exceed 40 years of service credit. This amount is payable until death or, in case of a disability, until receipt of full social security benefits. Vesting occurs after ten years of plan participation.

Funding Policy

The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2007, employer contributions to this retirement plan was \$10,236.

For the 2008 fiscal year, employer contributions will be at the rate of \$418 per month.

Newaygo County Mental Health Board
Notes to Financial Statements

At December 31, 2006, the assets were more than the pension benefit obligation by \$117,718, determined as follows:

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$900,846
Terminated employees not yet receiving benefits	105,685
Non-vested terminated employees (pending refunds of accumulated member contributions)	815
Current Employees:	
Accumulated employee contributions including allocated investment income	-
Employer financed	1,146,336
Total actuarial accrued liability	2,153,682
Net assets available for benefits at actuarial value (market = \$2,303,175)	2,271,400
Unfunded (over funded) actuarial accrued liability	\$117,718
Fiscal Year Beginning	October 1, 2008
Annual Required Contribution (ARC)	\$5,016
Amortization factor used – under-funded liabilities (24 years)	0.065308
Amortization factor used – under-funded liabilities (10 years)	0.119963

Three year trend information as of September 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-04	2,058,013	1,978,029	(79,984)	0%
12-31-05	2,096,095	2,027,560	(68,535)	0%
12-31-06	2,271,400	2,153,682	(117,718)	0%

MERS – Defined Contribution Plan

Plan Description

On July 1, 1999, the full time employees of the Board were given the option to convert the defined contribution plan through the Municipal Employees Retirement System to a money purchase retirement plan administered by the ICMA Retirement Corporation. All new employees are automatically enrolled in the money purchase retirement plan.

Newaygo County Mental Health Board
Notes to Financial Statements

Funding Policy

Under this plan, the Board contributes 4% of earnings to the Plan on behalf of each participant. If the participant contributes 3% of their earnings to the Plan, then the Board will contribute an additional 3%, matching the Participant contribution. The Board has no further retirement obligation to any Participant under this plan. The Participant controls the investments of the funds with the ICMA Retirement Corporation.

The vesting schedule for the Agency contributions is dependent on the years of service completed with the Agency and is as follows:

Years Of Service Completed	Percent Vested
Zero	Zero
One	25%
Two	50%
Three	75%
Four Or More	100%

The pension expense for the years ended September 30, 2007 and 2006 was \$193,939 and \$175,618, respectively.

This plan is also administered by the ICMA Retirement Corporation and information about these plans can be obtained at: MERS, 447 N. Canal Road, Lansing, MI 48917; and ICMA Retirement Corporation, 777 N. Capitol Street N.E., Washington, DC, 20002.

Alternative Social Security Plan

Plan Description

Those full-time employees in the MERS defined benefit plan, or fully participating in the defined contribution plan (i.e. matching 3% of their earnings), are not eligible for current contributions to be deducted for Social Security taxes, not including Medicare. The employer and employee contributions to the Plan are placed in a 401(a) alternative FICA plan, which is owned and controlled by the employee. This plan is considered an alternative plan to Social Security. Employees are immediately vested in this account, and the account is portable after termination of employment.

Funding Policy

The employee's contribute 5.0% of their wages which is deducted from their pay. The Board matches this amount.

Plan Description

Full-time employees who are not participating in Social Security, who elect to go part-time, will be enrolled in the Social Security system, and have payroll deductions for that purpose. Part-time employees, who elect to become full-time, and fully participate in the defined contribution retirement plan, will be enrolled in the FICA alternative 401(a) plan.

As of January 1, 2006, full-time employees who are enrolled in the Alternative Social Security Plan also participate in a Post-Employment Health Care Plan (PEHC) sponsored by the Michigan Employee Retirement System, or MERS. PEHC allows both the employee and the employer to make pre-tax contributions to an account which is managed by MERS. The funds in the account are indented for post-employment health care expenses, and can be accessed six months following termination of employment with the agency. These funds are investment and managed by MERS.

Funding Policy

Under this plan, 1.2% of the employee's wages are deducted from their pay on a pre-tax basis. The Board matches this amount. Employees are immediately vested in both the employer and the employee contribution.

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Board's limits, all further payments for such loss are the sole obligation of the Board. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Board is the sole obligation of the Board.

Newaygo County Mental Health Board
Notes to Financial Statements

The Board's coverage limit is \$5,000,000 for liability and between \$10,000 to \$100,000,000 for property and crime. The contribution made by the Board to the MMRMA was \$44,911.

Managed Mental Health Supports and Service Contract

The Board established an Internal Service Fund for risk financing related to the risk of increases in costs above the total general fund authorization due to increases in demand (increases in admissions and/or length of stay) for State Facility inpatient care or increases in State Facility inpatient rates.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE



NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Local	\$324,579	\$348,279	\$349,998	\$1,719
State	1,172,524	1,155,644	1,335,508	179,864
Federal	7,813,544	7,557,902	6,667,140	(890,762)
Other	105,622	236,406	330,517	94,111
Total revenues	9,416,269	9,298,231	8,683,163	(615,068)
Expenditures				
Health & welfare - mental health	8,990,655	8,907,033	8,583,912	323,121
Capital outlay	100,000	225,000	231,710	(6,710)
Debt service	15,000	14,000	13,720	280
Total expenditures	9,105,655	9,146,033	8,829,342	316,691
Excess of revenues over (under) expenditures	310,614	152,198	(146,179)	(298,377)
Other financing sources (uses)				
Proceeds from loans	-	-	49,476	49,476
Transfers in from internal service fund	-	-	82,570	82,570
Transfer of post employment benefits to third-party administrators	-	(622,930)	(622,930)	-
Total other financing sources (uses)	-	(622,930)	(490,884)	132,046
Excess of revenues and other sources Over (under) expenditures and other uses	310,614	(470,732)	(637,063)	(166,331)
Fund balance - beginning of year	1,989,638	1,989,638	2,421,871	432,233
Fund balance - end of year	<u>\$2,300,252</u>	<u>\$1,518,906</u>	<u>\$1,784,808</u>	<u>\$265,902</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS



NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2007	2006
Personnel Expenditures				
Salaries And Wages	\$3,262,839	\$45,792	\$3,308,631	\$3,178,947
Fringe Benefits	1,022,715	19,608	1,042,323	1,077,833
 Total Personnel Expenditures	 \$4,285,554	 \$65,400	 \$4,350,954	 \$4,256,780

NEWAYGO COUNTY MENTAL HEALTH BOARD
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

	Governmental Fund Types		Total Governmental Funds	
	General Fund	Michigan Families	2007	2006
Operating Expenditures				
Accreditation	\$361	-	\$361	\$8,640
Affiliation expense	7,673	-	7,673	7,793
Alzheimer's project	58,952	-	58,952	64,500
Board per diem	23,639	-	23,639	21,719
Board lodging, meals, travel, and conference	28,565	-	28,565	29,741
Capital outlay - under \$5,000	199,912	\$3,877	203,789	72,978
Car expense	69,100	3,311	72,411	76,474
Computer enhancements	52,343	1,922	54,265	66,013
Community hab waiver	1,058,504	-	1,058,504	1,104,413
Dues and memberships	9,016	8	9,024	9,318
Empowerment network	64,278	-	64,278	70,919
Inpatient care	557,371	-	557,371	623,972
Insurance - W/C	27,526	507	28,033	32,066
Legal and accounting	14,719	-	14,719	24,459
Miscellaneous person expense	100,089	4,415	104,504	30,168
Medicaid capacity building	-	281	281	127,309
Public relations	11,702	-	11,702	13,571
Publications	1,555	-	1,555	1,956
Professional contracts	1,234,593	-	1,234,593	957,121
Recruitment	4,695	-	4,695	3,020
Rent	82,793	1,965	84,758	53,515
Repairs and maintenance	5,686	-	5,686	3,201
Respite / Independent living	329,717	681	330,398	97,138
Supplies	63,300	-	63,300	64,708
Telephone	44,405	1,230	45,635	41,217
Transportation	29,011	-	29,011	30,987
Travel, meals, lodging, conferences, and training	67,345	1,028	68,373	80,669
Unemployment	20,225	6,878	27,103	1,942
Utilities	39,013	767	39,780	27,853
Totals	\$4,206,088	\$26,870	\$4,232,958	\$3,747,380



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Newaygo County Mental Health Board
White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Newaygo County Mental Health Board (the Board) as of and for the year ended September 30, 2007, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated January 31, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 31, 2008

Newaygo County Mental Health Board Schedule of Findings and Responses

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Board does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Newaygo County Mental Health Board
White Cloud, Michigan

In planning and performing our audit of the financial statements for Newaygo County Mental Health Board for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 31, 2008 on the financial statements of Newaygo County Mental Health Board.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Company, P.C.'.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 31, 2008

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that all of the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Fixed Assets

Inventory

The Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

The *Depreciation and Use Allowance* section of the Circular states that physical inventories must be taken at least once every two years to ensure that assets exist and are in use (Appendix B, Section 11 h).

We recommend the Board take a physical inventory of its fixed assets at least every two years to ensure that only active, in-service machinery and equipment is included on the Board's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing. Such physical counts will also help detect the loss or unauthorized use of valuable property.

Budget

Public Act 2, as amended, requires that the budget adopted by the Board and presented in the annual audited financial statements be prepared on the modified accrual basis and encompass all required budgetary items, including beginning and ending fund balances. During our review of the current budget we found the following:

- Loan proceeds related to the financing of vehicles was not included in the budget.
- Transfers from the Internal Service Fund were not included in the budget.
- Transfer of retiree health insurance funds to the third party administrator was not included in the budget.
- Budgeted beginning fund balance did not agree with the actual beginning fund balance.

We recommend that management periodically review the budget, and amend if necessary, to determine that all significant items are properly budgeted.

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Board consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Board to implement this new standard is for the fiscal year ending September, 2010. However, earlier application is encouraged by the GASB.